

ERWIN UTILITIES

Financial Statements
With Supplementary Information

Year Ended June 30, 2015

ERWIN UTILITIES
Financial Statements With Supplementary Information
Year Ended June 30, 2015

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Financial Statements With Supplementary Information (Continued)

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ERWIN UTILITIES
Roster of Officials and Board Members
June 30, 2015

Officials

Mr. Lee Brown
Mr. Matthew Rice
Mrs. Andrea Talbert
Mr. Kip Lemmon

General Manager
Director of Water and Wastewater
Manager of Accounting and Finance
Director of Construction and Maintenance

Board Members

Mr. Thomas Harris - Chairman
Mr. Scott Charles
Mr. Gary Edwards
Mr. Kevin Horton
Mr. Russell Brackins

Independent Auditors' Report

Board of Public Utilities
Town of Erwin, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Erwin Utilities (the "Utility") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

As discussed in Note 1, the financial statements present only Erwin Utilities and are not intended to present fairly the financial position and results of operations of the Town of Erwin, Tennessee, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility as of June 30, 2015, and the respective changes in the financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and required supplementary schedules on pages 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Erwin Utilities' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2015, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Rodger Moss & Co, PLLC

Greeneville, Tennessee
October 6, 2015

ERWIN UTILITIES
Management's Discussion and Analysis
June 30, 2015

This discussion is intended to present a broad view of Erwin Utilities' financial position and activities for fiscal year 2015. The information in this letter is provided to comply with standards issued by the Governmental Accounting Standards Board (GASB) No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The discussion and analysis included in this document contain information for Electric, Water, and Wastewater services provided by Erwin Utilities.

Erwin Utilities is owned by the Town of Erwin, Tennessee and is under the authority of the Board of Public Utilities, which consists of five (5) members. The day-to-day activities are controlled by the general manager and department managers.

Financial Statement Overview

The financial statements included in this report are comprised of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for four departments:

- Erwin Utilities' Electric Department
- Erwin Utilities' Water Department
- Erwin Utilities' Wastewater Department
- Erwin Utilities' Fiber Department

Each department operates independently from each other and shares costs when applicable. Costs are accounted for on a fair and consistent basis.

Highlights

- Paid the Town of Erwin, Unicoi County, Washington County, and Carter County a total of \$621,627 in transfers and tax equivalent payments for fiscal year 2015.
- Lost 2 customers in Electric, gained 12 customers in Water, and gained 15 customers in Wastewater for fiscal year ended 2015. An Internet and VoIP customer base was established and the initial billing month was April 2015.
- TVA Seasonal Time-Of-Use Wholesale Rates continued for fiscal year 2015. An electric revenue neutral rate adjustment was effective October 1, 2014.
- Erwin Utilities adjusted water rates July 1, 2014, to cover increased operation and maintenance costs.
- Erwin Utilities adjusted wastewater rates July 1, 2014, to cover increased operation and maintenance costs.
- Normal upgrades to power lines, water lines, and wastewater lines continued throughout fiscal year 2015.
- Principal debt repayments (net of refinanced amounts) for fiscal year 2015 on low interest loans for Erwin Utilities were as follows:

▪ Electric Department	\$398,340
▪ Water Department	\$119,699
▪ Wastewater Department	\$ 17,696
- 2015 Water Quality Report reported that all established standards were met or exceeded for Erwin Utilities' water system.

ERWIN UTILITIES
Management's Discussion and Analysis (Continued)

- In October 2014, the Town of Erwin Board of Mayor and Aldermen unanimously approved to allow Erwin Utilities to provide high speed broadband services. Erwin Utilities deployed the Fiber-to-the-Premise pilot project, and customers began being connected in March 2015.
- The pilot fiber-optic network construction has the ability to serve approximately 1,200 residential and business customers inside and surrounding the Town of Erwin. The network is used for electric demand response, meter reading, outage reporting, improved communications and operations of electric, water, and, wastewater and future load management. It provides high speed broadband services capable of 1Gbps, and Voice over Internet Protocol (VoIP).
- This is the first true fiber to the premise broadband service in Erwin Utilities' service area.
- In March 2015, the Phase II Fiber-to-the Home expansion area was determined with an estimated completion date of December 2015.

The Wastewater Department continued upgrades to the Wastewater Treatment Plant in fiscal year 2015 including upgrades to the Rotating Biological Contactors, headworks, barscreen sludge pumps, and Disinfection System.

Inflow and Infiltration (I&I) correction through sanitary sewer collection system rehabilitation also began in fiscal year 2015. Both of these projects continued in fiscal year 2016.

Table 1
Condensed Statement of Net Position

	June 30, <u>2015</u>	June 30. <u>2014</u>	Increase (Decrease)	%
Current assets	\$ 10,401,251	\$ 10,938,093	\$ (536,842)	-4.91%
Utility plant, net	40,306,120	38,788,808	1,517,312	3.91%
Other assets	<u>1,252,341</u>	<u>1,325,443</u>	<u>(73,102)</u>	-5.52%
Total assets	<u>51,959,712</u>	<u>51,052,344</u>	<u>907,368</u>	1.78%
Deferred Outflows of resources	<u>482,019</u>	<u>-</u>	<u>482,019</u>	100.00%
Current liabilities	5,111,064	4,975,813	135,251	2.72%
Long-term liabilities	<u>11,842,973</u>	<u>10,725,402</u>	<u>1,117,571</u>	10.42%
Total liabilities	<u>16,954,037</u>	<u>15,701,215</u>	<u>1,252,822</u>	7.98%
Deferred inflows of resources	<u>196,271</u>	<u>61,257</u>	<u>135,014</u>	220.41%
Net position	<u>\$ 35,291,423</u>	<u>\$ 35,289,872</u>	<u>\$ 1,551</u>	0.00%

ERWIN UTILITIES
Management's Discussion and Analysis (Continued)

Table 2
Statement of Revenues and Expenses and Changes in Net Position

	June 30, <u>2015</u>	June 30. <u>2014</u>	Increase (Decrease)	<u>%</u>
Operating Revenue				
Sales	\$ 24,948,985	\$ 25,118,736	\$ (169,751)	-0.68%
Other operating revenue	<u>706,845</u>	<u>697,591</u>	<u>9,254</u>	1.33%
Total operating revenue	<u>25,655,830</u>	<u>25,816,327</u>	<u>(160,497)</u>	-0.62%
Operating Expenses				
Purchased power	17,160,449	17,278,141	(117,692)	-0.68%
Distribution expense	949,413	914,287	35,126	3.84%
Maintenance	1,044,619	1,050,691	(6,072)	-0.58%
Customer accounts expense	1,171,633	1,239,618	(67,985)	-5.48%
Depreciation	1,425,073	1,360,345	64,728	4.76%
General and administrative expense	836,058	966,060	(130,002)	-13.46%
Treatment expense	656,535	656,504	31	0.00%
Pumping expense	74,766	88,203	(13,437)	-15.23%
Collection expense	<u>63,463</u>	<u>76,217</u>	<u>(12,754)</u>	-16.73%
Total operating expenses	<u>23,382,009</u>	<u>23,630,066</u>	<u>(248,057)</u>	-1.05%
Operating income	<u>2,273,821</u>	<u>2,186,261</u>	<u>87,560</u>	4.01%
Non-Operating Income (Expense)				
Interest income	13,659	17,285	(3,626)	-20.98%
Grant revenue	131,591	8,723	122,868	1408.55%
Interest expense	<u>(276,819)</u>	<u>(330,558)</u>	<u>53,739</u>	-16.26%
Total non-operating income	<u>(131,569)</u>	<u>(304,550)</u>	<u>172,981</u>	-56.80%
Transfers, in lieu of taxes	<u>(621,627)</u>	<u>(544,410)</u>	<u>(77,217)</u>	14.18%
Change in net position	<u>\$ 1,520,625</u>	<u>\$ 1,337,301</u>	<u>\$ 183,324</u>	13.71%

ERWIN UTILITIES
Management's Discussion and Analysis (Continued)

Financial Information

Electric Department

Net income for fiscal year 2015 decreased from fiscal year 2014 due to the impact of energy efficiency and conservation.

Operating Revenue for FY 2015 = \$21,906,441
Operating Revenue for FY 2014 = \$22,297,119

Purchased power from the Tennessee Valley Authority for fiscal year 2015 totaled \$17,160,449, down \$117,692 from fiscal year 2014.

Debt of \$4.8 million remains in the Electric Department as recorded for FY 2015.

Erwin Utilities, acting as the intermediary, received funds for secured zero-interest USDA Rural Economic Development Loan and Grant (REDLG) loans in FY2014. One loan was for \$375,000 at 0% interest for the Town of Erwin (Ultimate Recipient) to purchase a 16.5 acre industrial site. The purchase price was \$450,000. The Town of Erwin provided the \$75,000 matching funds. A second USDA REDLG loan was received for Impact Plastics, a local manufacturer (Ultimate Recipient) for \$500,000 at 0% interest. Repayment is in accordance with the USDA REDLG loan agreements consisting of 120 monthly installments. Erwin Utilities will receive an administrative fee from the Town of Erwin, and the manufacturer in an amount not to exceed 1% of their unpaid, outstanding loan balances.

Water Department

Erwin Utilities' Water Department ended fiscal year 2015 with net income of \$454,312, up from \$189,748 for fiscal year 2014. There was also a rate increase during the year.

Debt of \$1.52 million remains in the Water Department as recorded for fiscal year 2015.

Wastewater Department

Erwin Utilities' Wastewater Department ended fiscal year 2015 with net income of \$477,347, up from \$189,748 for fiscal year 2014. There was also a rate increase during the year.

Debt of \$2.8 million exists in the Wastewater Department for fiscal year 2015.

Fiber Department

Erwin Utilities' Fiber Department ended fiscal year 2015 with a net loss of \$74,891. This was the first year of operation.

Debt of \$225,000 exists in the Fiber Department for fiscal year 2015. Per the loan contract with the Electric Department, the first principal payment is due on January 1, 2019.

Other Financial Information

The details of the financial report and management's discussion are intended to provide customers and interested parties with a general and detailed overview of Erwin Utilities' financial position in all departments. Request for additional information should be addressed to Erwin Utilities, Manager of Accounting, Finance and Customer Service, P.O. Box 817, Erwin, Tennessee 37650.

ERWIN UTILITIES
Statement of Net Position
June 30, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,593,736
Certificates of deposit	2,564,114
Accounts receivable, net	2,192,839
Inventories	406,128
Current notes receivable	87,500
Accrued unbilled revenue	547,434
Other	<u>9,500</u>

Total current assets \$ 10,401,251

Utility Plant, net

40,306,120

Other Assets

Notes receivable - long term	655,208
Other assets	4,369
Energy conservation program notes receivable	<u>592,764</u>

Total other assets 1,252,341

Total assets 51,959,712

DEFERRED OUTFLOWS OF RESOURCES

Pension	447,301
Unamortized premium on bonds payable	<u>34,718</u>

Total deferred outflows 482,019

LIABILITIES

Current Liabilities

Accounts payable	3,547,223
Current portion of long-term debt	594,880
Accrued compensated absences	703,069
Other	<u>265,892</u>

Total current liabilities 5,111,064

Long-Term Liabilities

Long-term debt	8,537,577
Pension	1,580,079
Conservation loans	606,426
Customer deposits	924,590
Other post employment benefits	<u>194,301</u>

Total long-term liabilities 11,842,973

Total liabilities 16,954,037

DEFERRED INFLOWS OF RESOURCES

Deferred pole rental	44,327
Pension	<u>151,944</u>

Total deferred inflows 196,271

NET POSITION

Net investment in capital assets	31,173,663
Unrestricted	<u>4,117,760</u>

Total net position \$ 35,291,423

See notes to financial statements.

ERWIN UTILITIES
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

Operating Revenue		
Sales	\$ 24,948,985	
Other operating revenue	<u>706,845</u>	
Total operating revenue		\$ 25,655,830
Operating Expenses		
Purchased power	17,160,449	
Distribution expense	949,413	
Maintenance	1,044,619	
Customer accounts expense	1,171,633	
Depreciation	1,425,073	
General and administrative expense	836,058	
Treatment expense	656,535	
Pumping expense	74,766	
Collection expense	<u>63,463</u>	
Total operating expenses		<u>23,382,009</u>
Operating income		2,273,821
Non-Operating Income (Expense)		
Interest income	13,659	
Grant revenue	131,591	
Interest expense	<u>(276,819)</u>	
Total non-operating expense		(131,569)
Transfers, in lieu of taxes		<u>(621,627)</u>
Change in net position		1,520,625
Net position at the beginning of the year, restated		<u>33,770,798</u>
Net position at the end of the year		<u>\$ 35,291,423</u>

ERWIN UTILITIES
Statement of Cash Flows
Year Ended June 30, 2015

Cash Flows From Operating Activities

Cash received from customers	\$ 25,712,116	
Cash paid to suppliers and employees	<u>(22,336,699)</u>	
Net cash flows from operating activities		\$ 3,375,417

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	(2,783,940)	
Proceeds from long-term debt	2,864,209	
Principal paid on long-term debt	(3,399,944)	
Grant proceeds	131,591	
Interest expense	<u>(162,577)</u>	
Net cash flows from capital and related financing activities		(3,350,661)

Cash Flows From Investing Activities

Interest earned	13,659	
Net from certificates of deposit	<u>267,193</u>	
Net cash flows from investing activities		280,852

Cash Flows From Non-Capital Financing Activities

Transfers, in lieu of taxes	<u>(621,627)</u>	
Net cash flows from non-capital financing activities		<u>(621,627)</u>
Net change in cash and cash equivalents		(316,019)

Cash and Cash Equivalents, Beginning of the Year	<u>4,909,755</u>
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Cash and Cash Equivalents, End of the Year	<u><u>\$ 4,593,736</u></u>
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ERWIN UTILITIES
Statement of Cash Flows (Continued)

Reconciliation of Operating Income to Net Cash Flows From Operating Activities	
Operating income	\$ 2,273,821
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation	1,425,073
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable, unbilled receivables, and other	56,285
Inventories	(42,149)
Decrease in deferred outflows pension	(483,227)
Increase in liabilities:	
Accounts payable	26,138
Accrued expenses and other	65,634
Customer deposits	<u>53,842</u>
Net cash flows from operating activities	<u>\$ 3,375,417</u>

ERWIN UTILITIES
Notes to Financial Statements
June 30, 2015

NOTE 1 - REPORTING ENTITY

Erwin Utilities (the "Utility") is a part of the primary government of the Town of Erwin, Tennessee (the "Town"), and the Utility's financial statements are included in the Town's financial statements. The Utility provides electric, water, wastewater, phone and internet services to its customers in Erwin, Tennessee.

These financial statements present only Erwin Utilities and are not intended to present fairly the financial position of the Town and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accounts of the Utility are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Utility has implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements."*

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement Focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the "economic resources management focus" and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Accounting Policies - The Electric System follows accounting policies for public electric utilities as prescribed by the Federal Energy Regulatory Commission and TVA.

Cash Equivalents - The Utility considers certificates of deposit with original maturities of three months or less to be cash equivalents.

Accounts Receivable - are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amount through a provision for uncollectible accounts. Balances outstanding after reasonable collection efforts are written off to this allowance account. At June 30, 2015, the balance in allowance for uncollectible accounts was \$45,428.

Inventories - Inventories are recorded at average cost not to exceed current replacement cost.

Utility Plant - Utility plant is carried at cost. Depreciation is computed on the straight-line method using composite rates developed from depreciation studies. When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost less salvage is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences - The cost of vacation pay and sick leave benefits is recognized as earned by employees. In the event of termination, an employee is reimbursed for accumulated vacation days not to exceed thirty workdays. Employees can accumulate sick leave, and upon retirement, employees are reimbursed for 60% of their accumulated sick leave benefits not to exceed 150 workdays. Upon the death of an active employee, beneficiaries will receive any accrued vacation and sick leave benefits as described under the above retirement provision.

Pension - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Erwin, Tennessee Board of Public Utilities Pension Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenues and expenses - The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing wastewater services and delivering electricity, water, phone, and internet services in connection with ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenues are recognized on monthly cycle billings to customers. In order to properly match revenues with related cost, unbilled customer revenues are recorded at the end of each year.

New Accounting Pronouncements - GASB 68, *Accounting and Financial Reporting for Pensions*. This statement supersedes existing guidance on financial reporting for defined pension plans found in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*. These related Statements affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 68 establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. The Utility implemented these standards in the current fiscal year. The adoption of GASB 68 and 71 created a prior period adjustment of \$1,519,074 decreasing net position.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the statement of financial position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued. See note 13.

NOTE 3 - DEPOSITS

Deposits at June 30, 2015, consisted of cash, certificates of deposit, and interest non interest bearing bank accounts. At June 30, 2015, bank balances aggregated \$7,013,686 of which \$500,000 was covered by federal depository insurance and \$6,513,686 was covered by the Tennessee Collateral Pool.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 3 - DEPOSITS (Continued)

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the deposits, less amounts insured by federal deposit insurance. The collateral must be held by the Utility, its agent or by the Federal Reserve in the Utility's name.

Statutes also authorize the Utility to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, state pool investment funds, and money market mutual funds. Statutes require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

A summary of cash and certificates of deposit at June 30, 2015 is as follows:

Interest bearing accounts	\$ 4,449,934
Non interest bearing accounts	137,252
Certificates of deposit	2,564,114
Petty cash	<u>6,550</u>
	<u>\$ 7,157,850</u>

NOTE 4 - UTILITY PLANT ACTIVITY

Utility plant activity for the year ended June 30, 2015, was as follows:

Utility Plant	Balance 6/30/14	Additions	Retirements	Balance 6/30/15
Capital assets not being depreciated				
Land and land rights	\$ 1,477,879	\$ 64,025	\$ (1,459)	\$ 1,540,445
Construction in progress	<u>1,450,330</u>	<u>2,409,230</u>	<u>(2,584,584)</u>	<u>1,274,976</u>
Total capital assets not being depreciated	<u>2,928,209</u>	<u>2,473,255</u>	<u>(2,586,043)</u>	<u>2,815,421</u>
Other capital assets				
Structures and permanent improvements	16,650,826	265,727	(55,344)	16,861,209
Equipment, furnishings, and distribution systems	<u>34,106,819</u>	<u>2,606,250</u>	<u>(368,834)</u>	<u>36,344,235</u>
Total other capital assets	<u>50,757,645</u>	<u>2,871,977</u>	<u>(424,178)</u>	<u>53,205,444</u>
Less accumulated depreciation for				
Structures and permanent improvements	(4,973,491)	(720,897)	355,921	(5,338,467)
Equipment, furnishings, and distribution system	<u>(9,923,555)</u>	<u>(704,176)</u>	<u>251,453</u>	<u>(10,376,278)</u>
Total accumulated depreciation	<u>(14,897,046)</u>	<u>(1,425,073)</u>	<u>607,374</u>	<u>(15,714,745)</u>
Other capital assets, net	<u>35,860,599</u>	<u>1,446,904</u>	<u>183,196</u>	<u>37,490,699</u>
Utility Plant, net	<u>\$ 38,788,808</u>	<u>\$ 3,920,159</u>	<u>\$ (2,402,847)</u>	<u>\$ 40,306,120</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT ACTIVITY

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and notes payable					
Electric	\$ 5,175,721	\$ -	\$ (398,340)	\$ 4,777,381	\$ 436,510
Water	1,634,966	-	(119,699)	1,515,267	97,710
Wastewater	<u>2,857,505</u>	<u>2,864,209</u>	<u>(2,881,905)</u>	<u>2,839,809</u>	<u>60,660</u>
Total bonds and notes payable	9,668,192	2,864,209	(3,399,944)	9,132,457	594,880
Less:					
Unamortized premium	<u>-</u>	<u>34,718</u>	<u>-</u>	<u>34,718</u>	<u>-</u>
	<u>\$ 9,668,192</u>	<u>\$ 2,829,491</u>	<u>\$ (3,399,944)</u>	<u>\$ 9,097,739</u>	<u>\$ 594,880</u>

Long-term debt consisted of the following at June 30, 2015:

Tennessee Municipal Bond Fund, variable interest rate, .39% at June 30, 2015, due in varying amounts through May 2023	\$ 1,185,100
Series 2015 revenue bonds, 4% interest rate at June 30, 2015, due in varying amounts through June 2045	2,805,000
Series 2010 revenue bonds, 3.00% interest rate, due in varying amounts through June 2025	970,000
State Revolving Fund Loan, 2.42% interest rate, due in varying amounts through March 2033	509,648
Note payable to Rural Development, no interest, due in monthly variable payments through September 2023.	309,375
Note payable to Rural Development, no interest, due in monthly variable payments through February 2024.	433,334
Series 2007 revenue bonds, 3.75% interest rate, due in varying amounts through September 2027	<u>\$ 2,920,000</u>
	9,132,457
Amounts due within one year	<u>(594,880)</u>
Total long-term debt	<u>\$ 8,537,577</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT ACTIVITY (Continued)

Future maturities of long-term debt as of June 30, 2015, are as follows:

Year Ended June 30	Principal	Interest
2016	594,880	252,101
2017	611,644	238,179
2018	633,732	225,064
2019	651,232	211,054
2020	674,044	196,281
2021-2025	2,757,425	746,867
2026-2030	1,410,640	391,021
2031-2035	603,860	251,858
2036-2040	595,000	162,688
2041-2045	600,000	59,525
Total	<u>\$ 9,132,457</u>	<u>\$ 2,734,638</u>

NOTE 6 - RETIREMENT PLANS

Defined Benefit Retirement Plan

Plan Description

The Pension Plan for the Employees of the Erwin, Tennessee Board of Public Utilities (the "Plan") is individually designed by USI Consulting Group, established October 1, 2006 as a continuation of the CSA Plan. The Plan is a non-contributory, defined benefit retirement plan that provides retirement benefits as well as death benefits payable to surviving spouses. All employees of the Utility are eligible to participate in the Plan upon attaining the age of 21 and completing one year of service. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at age 65. A reduced retirement benefit is available to vested members at the age of 55. At the option of the employee, retirement benefits may be received in the form of a lump-sum distribution or an annuity over a period of 60, 120, or 180 months, or an employee may elect a 50% lump sum distribution with the remaining balance in monthly annuity payments for 60, 120, or 180 months.

An employee joining the Plan after August 1, 1995, is vested in his or her account in accordance with the following schedule:

Years of Employment Percentage
at Termination Account Vested

Less than 3	0%
3	20%
4	40%
5	60%
6	80%
7 or more	100%

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

Net Pension Liability

Valuation Date - The Plan's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.0 percent
Salary Increases	4.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

Mortality rates - Pre-retirement: IRS 2014 Combined Static Mortality Table
Post-retirement: Tennessee Consolidated Retirement System Mortality Table

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period of July 1, 2010 through June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Large Value	10.00%
Large Growth	10.00%
Mid-Cap Value	5.00%
Mid-Cap Growth	5.00%
Small Value	2.50%
Small Growth	2.50%
World Stock	10.00%
Convertibles	6.00%
Market Neutral	5.00%
World Bond	5.00%
High Yield Bond	7.50%
Intermediate-Term Bond	15.00%
Short-term Bond	8.00%
Bank Loan	7.50%
Money Market Taxable	1.00%

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumes that the Plan contributions will be made according to their established funding policy to contribute actuarially determined contribution. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 7/1/13	\$ 6,123,366	\$ 4,149,616	\$ 1,973,750
Changes for the year:			
Service Cost	167,818	-	167,818
Interest	457,033	-	457,033
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	454,675	(454,675)
Contributions - employee	-	-	-
Net investment income	-	566,307	(566,307)
Benefit payments, including refunds of employee contributions	(402,082)	(402,082)	-
Administrative expense	-	(2,460)	2,460
Other changes	-	-	-
Net changes	<u>222,769</u>	<u>616,440</u>	<u>(393,671)</u>
Balances at 6/30/14	<u>\$ 6,346,135</u>	<u>\$ 4,766,056</u>	<u>\$ 1,580,079</u>

Pension plan Fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued USI Consulting Group financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2014, the Plan recognized pension expense of \$263,596. At June 30, 2014, the Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>202,592</u>
Total	<u>\$ -</u>	<u>\$ 202,592</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2015	\$	50,648
2016		50,648
2017		50,648
2018		50,648
Thereafter		<u>-</u>
Total	\$	<u>202,592</u>

401(K) Retirement Plan

Employees may elect to participate in a 401(k) Retirement Plan. The maximum contribution for employees is 15% of their salaries. The Utility does not contribute to the plan. The effective date of the plan was January 1, 1986. The plan was amended and restated effective July 1, 1989, to comply with tax law changes. Employee contributions for the year ended June 30, 2015, were \$95,480.

NOTE 7 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The GASB established standards for the measurement, recognition, and reporting of other post-employment benefits ("OPEB"). OPEB includes post-employment benefits other than pension, which, for the Utility, is presently limited to post-employment health insurance and life insurance for retired employees who are at least age 55 and their spouses. GASB requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the unfunded liability. This was effective for the Utility for the fiscal year beginning July 1, 2009.

During 2012, the Utility had an actuarial study performed to determine the Utility's actuarial accrued liability for post-employment health insurance and life insurance benefits. The present value of the unfunded actuarial accrued OPEB liability was approximately \$477,149 as of the actuarial valuation date, July 1, 2012.

The valuation assumed a funding interest rate of 4%; a medical trend rate of 9%; an ultimate medical trend rate of 5%; that the ultimate trend rate will be reached in 2016; an Entry Age Normal actuarial cost method; annual payroll increase of 2.5%; and a remaining amortization period of 26.

The retiree pays 100% of the medical and life premiums and the spouse pays 100% of the medical premiums. During the year ended June 30, 2015, expenditures of \$55,957 were incurred for postretirement health care and life insurance. Current year cost of approximately \$55,957 includes a net OPEB obligation liability of \$194,301 at June 30, 2015.

The annual required contribution that will be reported in the next fiscal year is estimated to be \$57,049, which includes the normal cost of the plan and the amortization over thirty years of any unfunded actuarial liability.

NOTE 8 - POWER CONTRACT

The Utility has a power contract with TVA whereby the system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 9 - INCOME TAX STATUS

The Utility is a non-profit organization, and is exempt from federal income tax under Internal Revenue Code Section 501(c)(12).

NOTE 10 - TVA RESIDENTIAL ENERGY EFFICIENCY PROGRAM

Under a contract with Tennessee Valley Authority, the Utility participates in home energy efficiency programs providing low-interest loans to qualified customers. Customer repayments are remitted to Regions Bank.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Utility to concentrations of credit risk consist primarily of accounts receivable. Because the Utility requires a deposit if a customer is considered a credit risk, management does not believe significant credit risk exists at June 30, 2015.

NOTE 12 - RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss is covered by commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 13 - SUBSEQUENT EVENT

Subsequent to year end, Erwin Utilities began receiving funds from a loan of \$4,000,000 with 5% principal forgiveness for wastewater treatment plant improvements.

NOTE 14 - SEGMENT INFORMATION

The Utility issues general obligation, public improvement, and revenue bonds to support the services provided to its customers and the Town of Erwin. The financial statements report general obligation and public improvement bonds for the electric, wastewater, and water and a revenue bond for the wastewater segment. Condensed financial information for electric, wastewater, water, and fiber follows:

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 14 - SEGMENT INFORMATION (Continued)

Condensed Statement of Net Position	Electric System	Water System	Wastewater System	Fiber System
ASSETS				
Current assets	\$ 8,318,314	\$ 1,194,967	\$ 960,574	\$ 152,396
Utility plant, net	20,164,388	9,809,945	10,316,692	15,095
Other assets	1,252,341	-	-	-
Total assets	29,735,043	11,004,912	11,277,266	167,491
DEFERRED OUTFLOWS OF RESOURCES	261,671	98,406	119,705	2,237
LIABILITIES				
Current liabilities	4,500,524	225,282	364,431	20,827
Long-term liabilities	6,940,010	1,810,001	3,094,930	223,032
Total liabilities	11,440,534	2,035,283	3,459,361	243,859
DEFERRED INFLOWS OF RESOURCES	133,214	33,428	28,869	760
NET POSITION				
Net investment in capital assets	15,387,007	8,294,678	7,476,883	15,095
Unrestricted	3,035,959	739,929	431,858	(89,986)
Total net position	\$ 18,422,966	\$ 9,034,607	\$ 7,908,741	\$ (74,891)
Condensed Statement of Revenues, Expenses, and Changes in Net Position	Electric System	Water System	Wastewater System	Fiber System
Operating Revenues	\$ 21,906,441	\$ 2,169,196	\$ 1,566,807	\$ 13,386
Depreciation	882,137	321,738	220,987	211
Other operating expenses	19,709,595	1,323,912	838,656	84,773
Total operating expenses	20,591,732	1,645,650	1,059,643	84,984
Operating income	1,314,709	523,546	507,164	(71,598)
Non-Operating Income (Expense)				
Interest income	13,479	1,745	1,728	7
Grants	-	-	131,591	-
Interest expense	(135,626)	(26,951)	(114,242)	(3,300)
Total non-operating	(122,147)	(25,206)	19,077	(3,293)
Transfers, in lieu of taxes	(528,705)	(44,028)	(48,894)	-
Change in net position	663,857	454,312	477,347	(74,891)
Net position at the beginning of the year, restated	17,759,109	8,580,295	7,431,394	-
Net position at the end of the year	\$ 18,422,966	\$ 9,034,607	\$ 7,908,741	\$ (74,891)

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 14 - SEGMENT INFORMATION (Continued)

Condensed Statement of Cash Flows	Electric System	Water System	Wastewater System	Fiber System
Net cash provided (used) by				
Operating activities	\$ 2,059,373	\$ 648,187	\$ 721,862	\$ (54,005)
Capital and related financing activities	(2,373,564)	(465,822)	(720,969)	206,394
Investing activities	280,672	1,745	1,728	7
Non-Capital financing activities	(528,705)	(44,028)	(48,894)	-
Net increase (decrease)	(562,224)	140,082	(46,273)	152,396
Cash, Beginning of the year	3,475,093	710,859	723,803	-
Cash, End of the year	<u>\$ 2,912,869</u>	<u>\$ 850,941</u>	<u>\$ 677,530</u>	<u>\$ 152,396</u>

REQUIRED SUPPLEMENTARY INFORMATION

ERWIN UTILITIES
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
June 30, 2015

Measurement Period Ended	<u>6/30/2014</u>
Total pension liability	
Service cost	\$ 167,818
Interest	457,033
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(402,082)</u>
Net change in total pension liability	222,769
Total pension liability - beginning	<u>6,123,366</u>
Total pension liability - ending (a)	<u><u>\$ 6,346,135</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 454,675
Contributions - employee	-
Net investment income	566,307
Benefit payments, including refunds of employee contributions	(402,082)
Administrative expense	(2,460)
Other	<u>-</u>
Net change in plan fiduciary net position	616,440
Plan fiduciary net position - beginning	<u>4,149,616</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 4,766,056</u></u>
Net pension liability - ending (a) - (b)	1,580,079
Plan fiduciary net position as a percentage of the total pension liability	75.10%
Covered - employee payroll	\$ 2,182,269
Net pension liability as a percentage of covered employee payroll	72.41%

ERWIN UTILITIES
Schedule of Contributions (Unaudited)
June 30, 2015

Measurement period ended June 30,	<u>2014</u>
Actuarially determined contribution	\$ 454,682
Contributions in relation to the actuarially determined contribution	<u>454,675</u>
Contribution deficiency (excess)	<u>\$ 7</u>
Covered employee payroll	\$ 2,182,269
Contributions as a percentage of covered employee payroll	20.83%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of the beginning of the fiscal year (July 1).

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal, level percentage of compensation
Amortization method:	Level amortization, closed
Remaining amortization period:	30 years
Asset valuation method:	Market value of plan assets adjusted to phase in asset gains and losses over a five-year period at a rate of 20% a year. Valuation assets are further limited to a 20% corridor around market value.
Salary increases:	4.0% per annum
Investment rate of return:	7.5% per annum
Retirement age:	15% retire at age 60 and 61, 50% retire at age 62, 25% retire at age 63 and 64, and 100% retire at age 65
Mortality:	Pre-retirement: IRS 2014 Combined Static Mortality Table Post-retirement: TCRS Mortality Table

ERWIN UTILITIES
Schedule of Funding Progress of Other Post Employment Benefits (Unaudited)
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2012	\$ -	\$ 477,149	\$ 477,149	0%	\$ 2,364,090	20.2%
July 1, 2009	\$ -	\$ 355,344	\$ 355,344	0%	\$ 2,125,744	16.7%

SUPPLEMENTARY INFORMATION

ERWIN UTILITIES
Schedule of Expenditures of Federal Awards
June 30, 2015

Grantor Agency	Program Title	CFDA Number	Grant Number	Balance July 1, 2014	Receipts	Expenditures	Balance June 30, 2015
United States Department of Housing and Urban Development passed through State of TN Department of Economic and Community Development	Community Development Block Grant	14.218	N/A	\$ (8,723)	\$ 140,313	\$ 131,590	\$ -
Total grants from federal allocation				<u>\$ (8,723)</u>	<u>\$ 140,313</u>	<u>\$ 131,590</u>	<u>\$ -</u>

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

This schedule is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

ERWIN UTILITIES
Departmental Statement of Net Position
June 30, 2015

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 2,912,869	\$ 850,941	\$ 677,530	\$ 152,396	\$ -	\$ 4,593,736
Certificates of deposit	2,294,013	101,849	168,252	-	-	2,564,114
Accounts receivable, net	2,203,700	123,147	90,992	-	(225,000)	2,192,839
Inventories	263,298	119,030	23,800	-	-	406,128
Current notes receivable	87,500	-	-	-	-	87,500
Accrued unbilled revenue	547,434	-	-	-	-	547,434
Other	9,500	-	-	-	-	9,500
Total current assets	<u>8,318,314</u>	<u>1,194,967</u>	<u>960,574</u>	<u>152,396</u>	<u>(225,000)</u>	<u>10,401,251</u>
Utility Plant, net	<u>20,164,388</u>	<u>9,809,945</u>	<u>10,316,692</u>	<u>15,095</u>	<u>-</u>	<u>40,306,120</u>
Other Assets						
Notes receivable - long term	655,208	-	-	-	-	655,208
Other assets	4,369	-	-	-	-	4,369
Conservation notes receivable	592,764	-	-	-	-	592,764
Total other assets	<u>1,252,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,252,341</u>
Total assets	<u>29,735,043</u>	<u>11,004,912</u>	<u>11,277,266</u>	<u>167,491</u>	<u>(225,000)</u>	<u>51,959,712</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension	261,671	98,406	84,987	2,237	-	447,301
Unamortized premium on bonds payable	-	-	34,718	-	-	34,718
Total deferred outflows	<u>261,671</u>	<u>98,406</u>	<u>119,705</u>	<u>2,237</u>	<u>-</u>	<u>482,019</u>
LIABILITIES						
Current Liabilities						
Accounts payable	3,258,805	14,500	260,791	13,127	-	3,547,223
Current portion of long-term debt	436,510	97,710	60,660	-	-	594,880
Accrued compensated absences	573,473	96,394	33,202	-	-	703,069
Other	231,736	16,678	9,778	7,700	-	265,892
Total current liabilities	<u>4,500,524</u>	<u>225,282</u>	<u>364,431</u>	<u>20,827</u>	<u>-</u>	<u>5,111,064</u>
Long-Term Liabilities						
Conservation loans	606,426	-	-	-	-	606,426
Customer deposits	919,740	4,850	-	-	-	924,590
OPEB	138,758	39,977	15,566	-	-	194,301
Pension	934,215	347,617	300,215	(1,968)	-	1,580,079
Long-term debt	4,340,871	1,417,557	2,779,149	225,000	(225,000)	8,537,577
Total long-term liabilities	<u>6,940,010</u>	<u>1,810,001</u>	<u>3,094,930</u>	<u>223,032</u>	<u>(225,000)</u>	<u>11,842,973</u>
Total liabilities	<u>11,440,534</u>	<u>2,035,283</u>	<u>3,459,361</u>	<u>243,859</u>	<u>(225,000)</u>	<u>16,954,037</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred pole rental	44,327	-	-	-	-	44,327
Pension	88,887	33,428	28,869	760	-	151,944
Total deferred inflows	<u>133,214</u>	<u>33,428</u>	<u>28,869</u>	<u>760</u>	<u>-</u>	<u>196,271</u>
NET POSITION	<u>\$ 18,422,966</u>	<u>\$ 9,034,607</u>	<u>\$ 7,908,741</u>	<u>\$ (74,891)</u>	<u>\$ -</u>	<u>\$ 35,291,423</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Departmental Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2015

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
Operating Revenue						
Sales	\$ 21,274,837	\$ 2,125,070	\$ 1,535,692	\$ 13,386	\$ -	\$ 24,948,985
Other operating revenue	<u>631,604</u>	<u>44,126</u>	<u>31,115</u>	<u>-</u>	<u>-</u>	<u>706,845</u>
Total operating revenues	<u>21,906,441</u>	<u>2,169,196</u>	<u>1,566,807</u>	<u>13,386</u>	<u>-</u>	<u>25,655,830</u>
Operating Expenses						
Purchased power	17,160,449	-	-	-	-	17,160,449
Distribution expense	746,236	151,465	-	51,712	-	949,413
Maintenance	722,974	214,334	107,078	233	-	1,044,619
Customer accounts expense	711,559	324,116	130,489	5,469	-	1,171,633
Depreciation	882,137	321,738	220,987	211	-	1,425,073
General and administrative expense	368,377	247,287	193,035	27,359	-	836,058
Treatment expense	-	386,710	269,825	-	-	656,535
Pumping expense	-	-	74,766	-	-	74,766
Collection expense	<u>-</u>	<u>-</u>	<u>63,463</u>	<u>-</u>	<u>-</u>	<u>63,463</u>
Total operating cost	<u>20,591,732</u>	<u>1,645,650</u>	<u>1,059,643</u>	<u>84,984</u>	<u>-</u>	<u>23,382,009</u>
Operating income (loss)	<u>1,314,709</u>	<u>523,546</u>	<u>507,164</u>	<u>(71,598)</u>	<u>-</u>	<u>2,273,821</u>
Non-Operating Income (Expense)						
Interest income	13,479	1,745	1,728	7	(3,300)	13,659
Grant revenue	-	-	131,591	-	-	131,591
Interest expense	<u>(135,626)</u>	<u>(26,951)</u>	<u>(114,242)</u>	<u>(3,300)</u>	<u>3,300</u>	<u>(276,819)</u>
Total non-operating income (expense)	<u>(122,147)</u>	<u>(25,206)</u>	<u>19,077</u>	<u>(3,293)</u>	<u>-</u>	<u>(131,569)</u>
Transfers, in lieu of taxes	<u>(528,705)</u>	<u>(44,028)</u>	<u>(48,894)</u>	<u>-</u>	<u>-</u>	<u>(621,627)</u>
Change in net position	<u>663,857</u>	<u>454,312</u>	<u>477,347</u>	<u>(74,891)</u>	<u>-</u>	<u>1,520,625</u>
Net position at the beginning of the year, restated	<u>17,759,109</u>	<u>8,580,295</u>	<u>7,431,394</u>	<u>-</u>	<u>-</u>	<u>33,770,798</u>
Net position at the end of the year	<u>\$ 18,422,966</u>	<u>\$ 9,034,607</u>	<u>\$ 7,908,741</u>	<u>\$ (74,891)</u>	<u>\$ -</u>	<u>\$ 35,291,423</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Departmental Statement of Cash Flows
Year Ended June 30, 2015

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
Cash Flows From Operating Activities						
Cash received from customers	\$ 22,011,083	\$ 2,120,028	\$ 1,567,619	\$ 13,386	\$ -	\$ 25,712,116
Cash paid to suppliers and employees	<u>(19,951,710)</u>	<u>(1,471,841)</u>	<u>(845,757)</u>	<u>(67,391)</u>	<u>-</u>	<u>(22,336,699)</u>
Net cash flows from operating activities	<u>2,059,373</u>	<u>648,187</u>	<u>721,862</u>	<u>(54,005)</u>	<u>-</u>	<u>3,321,412</u>
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(1,614,598)	(319,172)	(834,864)	(15,306)	-	(2,783,940)
Proceeds from long-term debt	-	-	2,864,209	-	-	2,864,209
Principal paid on long-term debt	(398,340)	(119,699)	(2,881,905)	-	-	(3,399,944)
Inter-departmental loan	(225,000)	-	-	225,000	-	-
Grant proceeds	-	-	131,591	-	-	131,591
Interest expense	<u>(135,626)</u>	<u>(26,951)</u>	<u>-</u>	<u>(3,300)</u>	<u>3,300</u>	<u>(162,577)</u>
Net cash flows from capital and related financing activities	<u>(2,373,564)</u>	<u>(465,822)</u>	<u>(720,969)</u>	<u>206,394</u>	<u>3,300</u>	<u>(3,350,661)</u>
Cash Flows From Investing Activities						
Interest earned	13,479	1,745	1,728	7	(3,300)	13,659
Net purchases/redemption of certificates of deposit	<u>267,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>267,193</u>
Net cash flows from investing activities	<u>280,672</u>	<u>1,745</u>	<u>1,728</u>	<u>7</u>	<u>(3,300)</u>	<u>280,852</u>
Cash Flows From Non-Capital Financing Activities						
Transfers, in lieu of taxes	<u>(528,705)</u>	<u>(44,028)</u>	<u>(48,894)</u>	<u>-</u>	<u>-</u>	<u>(621,627)</u>
Net cash flows from non-capital financing activities	<u>(528,705)</u>	<u>(44,028)</u>	<u>(48,894)</u>	<u>-</u>	<u>-</u>	<u>(621,627)</u>
Net change in cash and cash equivalents	(562,224)	140,082	(46,273)	152,396	-	(316,019)
Cash and Cash Equivalents, Beginning of the Year	<u>3,475,093</u>	<u>710,859</u>	<u>723,803</u>	<u>-</u>	<u>-</u>	<u>4,909,755</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 2,912,869</u>	<u>\$ 850,941</u>	<u>\$ 677,530</u>	<u>\$ 152,396</u>	<u>\$ -</u>	<u>\$ 4,593,736</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Departmental Statement of Cash Flows (Continued)

	Electric System	Water System	Wastewater System	Fiber System	Total
Reconciliation of Operating Income to Net Cash Flows From Operating Activities					
Operating income	\$ 1,314,709	\$ 523,546	\$ 507,164	\$ (71,598)	\$ 2,273,821
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation	882,137	321,738	220,987	211	1,425,073
Changes in operating assets and liabilities					
(Increase) decrease in assets:					
Accounts receivable, unbilled receivables, and other	104,642	(49,168)	811	-	56,285
Inventories	(51,574)	13,927	(4,502)	-	(42,149)
Increase (decrease) in deferred outflows	(261,671)	(98,406)	(119,705)	(3,445)	(483,227)
Increase (decrease) in liabilities:					
Accounts payable	(16,618)	(87,206)	116,835	13,127	26,138
Accrued expenses and other	33,906	23,756	272	7,700	65,634
Customer deposits	53,842	-	-	-	53,842
Net cash flows from operating activities	<u>\$ 2,059,373</u>	<u>\$ 648,187</u>	<u>\$ 721,862</u>	<u>\$ (54,005)</u>	<u>\$ 3,375,417</u>

ERWIN UTILITIES
Schedule of Investments
June 30, 2015

Description	Maturity Date	Interest Rate	Carrying Amount
Certificates of deposit	December-2015	0.05% - 0.30%	\$ 2,294,012
Certificates of deposit	August-2015	0.30%	101,849
Certificates of deposit	September-2015	0.30%	<u>168,253</u>
			<u><u>\$ 2,564,114</u></u>

ERWIN UTILITIES
Schedule of Insurance Coverage
June 30, 2015

	<u>Coverage Amount</u>
Blanket Real and Personal Property, Contractors Equipment	\$ 28,924,682
Boiler and Machinery (Fire, Lightning, & Extended Coverage)	\$ 26,744,091
Combination Liability: Comprehensive General Liability, Contracted Liability, Personal Injury Liability, Owner's and Contractor's Protective Liability, Premises Medical Payments:	
Primary: Each occurrence	\$ 250,000
Aggregate	\$ 750,000
Products aggregate	\$ 750,000
Excess: Each occurrence	\$ 750,000
Aggregate	\$ 2,250,000
Products aggregate	\$ 750,000
Blanket Crime Policy: (1) Employee Dishonesty, (2) Loss of Money Orders and Securities (Inside Premises), (3) Loss of Money Orders and Securities (Outside Premises), (4) Money Orders and Counterfeit Paper, and (5) Depositor's Forgery Coverage	\$ 1,000,000
Workman's Compensation Liability	Statutory Limits
Directors and Officers Liability and Corporation Reimbursements	\$ 1,000,000
Business Auto Policy: Personal Injury, Auto Medical Payments, Uninsured Motorist, Comprehensive Coverage, Collision Insurance Liability:	
Liability	\$ 1,000,000
Uninsured Motorist	\$ 1,000,000
Pollution Liability	\$ 1,000,000
Fiduciary Liability	\$ 1,000,000

ERWIN UTILITIES
Schedule of Utility Rates
June 30, 2015

Utility rates in effect at June 30, 2015 consist of the following:

Electric System:

Residential Rate - Schedule RS

Customer Charge - per delivery point per month	\$15.29
Energy Charge - per kilowatt hour (kWh) per month	\$.08932

General Power Rate - Schedule GSA

Part 1.	Not to exceed 50 kW or 15,000 kWh per month:	
	Customer Charge #1 - per delivery point per month	\$16.89
	1 Phase under 50kW	
	Customer Charge #2 - per delivery point per month	\$25.00
	3 Phase under 50kW	\$10147
	Energy Charge - per kWh	
Part 2.	Greater than 50 kW but not more than 1,000 kW or 50 kW or less with greater than 15,000 kWh:	
	Customer Charge #1 - per delivery point per month	\$46.00
	3 Phase self-contained metering	
	Customer Charge #2 - per deliver point per month	\$60.00
	3 Phase secondary instrument rated metering	
	Customer Charge #3 - per deliver point per month	\$105.00
	3 Phase primary instrument rated metering	
	Demand Charge - per kW per month:	
	First 50 kW	\$0.00
	Excess over 50 kW	\$12.48
	Energy Charge - per kWh per month:	
	First 15,000 kWh	\$10342
	Additional kWh	\$.06287
Part 3.	Greater than 1,000 kW but not more than 5,000 kW:	
	Customer Charge - per delivery point per month	\$200.00
	Demand Charge - per kW per month:	
	First 1,000 kW	\$12.63
	Excess over 1,000 kW	\$14.70
	Excess Taking > 2,500 kW or Contract	\$14.70
	Energy Charge - per kWh per month	\$.06586

General Power Rate - Schedule TDMSA MSA Summer

Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
Demand Charge	
Summer period - On peak kWh	\$17.24
Summer period - Off peak kWh	\$4.14
Energy Charge - Summer period - On peak kWh	.0982
All seasons off peak hours use of demand adjustment	
First 425 HUD	\$.04606
Next 195 HUD	\$.02641
Over 620 HUD	\$.0973

ERWIN UTILITIES
Schedule of Utility Rates (Continued)

Outdoor Lighting Rate - Schedule LS

Part A. Street Lighting, Traffic Signals, and Athletic Field Lighting:

Customer Charge	\$2.50
Energy Charge - per kWh per month	\$.06586
Facility Charge - annual rate	12%

Part B. Charges for Outdoor Lighting for Individual Customers:

Charges Per Fixture Per Month

<u>Type of Fixture</u>	<u>Lamp Size (Watts)</u>	<u>Monthly Charge</u>
Mercury Vapor	175	\$ 8.32
	400	15.27
High Pressure Sodium	100	7.89
	250	12.79
	400	17.65
Metal Halide	400	18.57
	1,000	35.09

Additional Facilities

Pole	\$2.00 per month per pole
Pole (Metal Halide Light)	\$4.15 per month per pole
Transformer	\$4.40 per month

Erwin Water System:

Customer Charge - per month based on meter size

5/8" x 3/4" & 3/4"	\$ 10.24	\$ 15.37
1"	14.28	21.42
1 1/2"	26.95	40.43
2"	32.05	48.08
3"	65.05	97.58
4"	128.48	192.72
6"	255.41	383.12
8"	452.82	679.23

Water Charge - cost per 1,000 gallons	2.40	3.60
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Wastewater System:

Customer Charge - per month per unit	\$ 7.05	\$ 10.58
User Charge - cost per 1,000 gallons	4.73	7.10

ERWIN UTILITIES
Schedule of Utility Rates (Continued)

Fiber System:

Internet

Residential - 25 Mbps	\$49.95/month
Residential - 100 Mbps	69.95/month
Residential - 1 Gigabit	199.95/month

Business- 25 Mbps	59.95/month
Business- 100 Mbps	79.95/month
Business - 1 Gigabit	499.95/month

Voice

Residential	24.95/month
Business	34.95/month

ERWIN UTILITIES
Schedule of Number of Customers Served
June 30, 2015

The number of customers served at June 30, 2015 is as follows:

Electric System:	
Residential	7,595
Other	1,332
Water System:	
Residential	4,598
Other	606
Wastewater System:	
Residential	3,023
Other	602
Fiber	
Residential	141
Other	16

ERWIN UTILITIES
Schedule of Unaccounted for Water (Unaudited)
June 30, 2015

AWWA Free Water Audit Software: Reporting Worksheet										WAS v5.0 American Water Works Association																																																																																						
Click to access definition Click to add a comment		Water Audit Report for: <u>Erwin Utilities</u> Reporting Year: <u>2015</u> <u>7/2014 - 6/2015</u>																																																																																														
Please enter data in the white cells below. Where available, metered values should be used. If metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by <div style="text-align: center;"> All volumes to be entered as: MILLION GALLONS (US) PER YEAR </div>																																																																																																
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Customer retail unit cost (applied to Apparent Losses):		+	?	<u>10</u>	<u>\$3.00</u>	\$/1000 gallons (US)																																																																																										
Variable production cost (applied to Real Losses):		+	?	<u>10</u>	<u>\$669.40</u>	\$/Million gallons																																																																																										
<p>WATER AUDIT DATA VALIDITY SCORE:</p> <div style="text-align: center; border: 1px solid black; padding: 5px;"> *** YOUR SCORE IS: 89 out of 100 *** </div> <p>A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score</p> <p>PRIORITY AREAS FOR ATTENTION:</p> <p>Based on the information provided, audit accuracy can be improved by addressing the following components:</p> <ol style="list-style-type: none"> 1: Unauthorized consumption 2: Systematic data handling errors 3: Billed metered 																																																																																																

ERWIN UTILITIES
Schedule of Unaccounted for Water (Unaudited) (Continued)

AWWA Free Water Audit Software: <u>System Attributes and Performance Indicators</u>			
Water Audit Report for:	Erwin Utilities		
Reporting Year:	2015	7/2014 - 6/2015	
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 89 out of 100 ***			
<u>System Attributes:</u>			
	Apparent Losses:	7.018	MG/Yr
+	Real Losses:	85.036	MG/Yr
=	Water Losses:	92.054	MG/Yr
	Unavoidable Annual Real Losses (UARL):	44.66	MG/Yr
	Annual cost of Apparent Losses:	\$21,053	
	Annual cost of Real Losses:	\$56,923	
			Valued at Variable Production Cost
Return to Reporting Worksheet to change this assumption			
<u>Performance Indicators:</u>			
Non-revenue water as percent by volume of Water Supplied:		18.1%	
Non-revenue water as percent by cost of operating system:		5.1%	Real Losses valued at Variable Production Cost
Apparent Losses per service connection per day:		3.72	gallons/connection/day
Real Losses per service connection per day:		45.06	gallons/connection/day
Real Losses per length of main per day*:		N/A	
Real Losses per service connection per day per psi pressure:		0.51	gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):		85.04	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:		1.90	
* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline			

ERWIN UTILITIES
Schedule of Long-Term Debt Maturities by Issue
June 30, 2015

Year Ended June 30	Series 1997		Series 2015		Series 2007		Series 2010		Water	
	General Obligation Bond		Revenue Bonds		Revenue Bond		Revenue Bond		Loan Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 124,100	\$ 4,622	\$ 55,000	\$ 97,506	\$ 175,000	\$ 112,341	\$ 130,000	\$ 26,044	\$ 23,280	\$ 12,072
2017	130,300	4,138	55,000	95,306	185,000	105,591	130,000	22,144	23,844	11,508
2018	136,800	3,630	60,000	93,106	190,000	98,560	135,000	19,382	24,432	10,920
2019	143,700	3,096	60,000	90,706	200,000	91,148	135,000	16,344	25,032	10,320
2020	150,900	2,536	65,000	88,306	205,000	83,351	140,000	12,969	25,644	9,708
2021-2025	499,300	3,958	360,000	398,981	1,155,000	285,063	300,000	21,969	137,916	38,844
2026-2030	-	-	445,000	319,331	810,000	50,570	-	-	155,640	21,120
2031-2035	-	-	510,000	248,600	-	-	-	-	93,860	3,258
2036-2040	-	-	595,000	162,688	-	-	-	-	-	-
2041-2045	-	-	600,000	59,525	-	-	-	-	-	-
Total	<u>\$ 1,185,100</u>	<u>\$ 21,980</u>	<u>\$ 2,805,000</u>	<u>\$ 1,654,055</u>	<u>\$ 2,920,000</u>	<u>\$ 826,624</u>	<u>\$ 970,000</u>	<u>\$ 118,852</u>	<u>\$ 509,648</u>	<u>\$ 117,750</u>

Year Ended June 30	Electric		Electric		Total	
	Loan Payable		Loan Payable			
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 37,500	\$ -	\$ 50,000	\$ -	\$ 594,880	\$ 252,585
2017	37,500	-	50,000	-	611,644	238,687
2018	37,500	-	50,000	-	633,732	225,598
2019	37,500	-	50,000	-	651,232	211,614
2020	37,500	-	50,000	-	674,044	196,870
2021-2025	121,875	-	183,334	-	2,757,425	748,815
2026-2030	-	-	-	-	1,410,640	391,021
2031-2035	-	-	-	-	603,860	251,858
2036-2040	-	-	-	-	595,000	162,688
2041-2045	-	-	-	-	600,000	59,525
Total	<u>\$ 309,375</u>	<u>\$ -</u>	<u>\$ 433,334</u>	<u>\$ -</u>	<u>\$ 9,132,457</u>	<u>\$ 2,739,261</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Schedule of Utility Plant Activity by Segment
June 30, 2015

	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015
Electric System:				
Structures and permanent improvements	\$ 4,500,462	\$ -	\$ -	\$ 4,500,462
Equipment, furnishings, and distribution systems	20,576,283	2,046,493	(168,121)	22,454,655
Land and land rights	1,200,221	63,949	-	1,264,170
Construction in progress	727,164	1,383,498	(1,769,668)	340,994
Total Electric System	<u>\$ 27,004,130</u>	<u>\$ 3,493,940</u>	<u>\$ (1,937,789)</u>	<u>\$ 28,560,281</u>
Wastewater System:				
Structures and permanent improvements	\$ 6,767,259	\$ 265,727	\$ (53,896)	\$ 6,979,090
Equipment, furnishings, and distribution systems	5,753,236	89,904	(17,211)	5,825,929
Land and land rights	60,171	13	-	60,184
Construction in progress	248,042	749,830	(427,128)	570,744
Total Wastewater System	<u>\$ 12,828,708</u>	<u>\$ 1,105,474</u>	<u>\$ (498,235)</u>	<u>\$ 13,435,947</u>
Water System:				
Structures and permanent improvements	\$ 5,383,105	\$ -	\$ (1,446)	\$ 5,381,659
Equipment, furnishings, and distribution systems	7,777,300	454,547	(183,502)	8,048,345
Land and land rights	217,487	62	(1,459)	216,090
Construction in progress	475,124	275,902	(387,788)	363,238
Total Water System	<u>\$ 13,853,016</u>	<u>\$ 730,511</u>	<u>\$ (574,195)</u>	<u>\$ 14,009,332</u>
Fiber System:				
Fiber services	\$ -	\$ 15,306	\$ -	\$ 15,306
Total Fiber System	<u>\$ -</u>	<u>\$ 15,306</u>	<u>\$ -</u>	<u>\$ 15,306</u>
Total	<u>\$ 53,685,854</u>	<u>\$ 5,345,231</u>	<u>\$ (3,010,219)</u>	<u>\$ 56,020,866</u>

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Public Utilities
Town of Erwin, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Erwin Utilities (the "Utility") as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

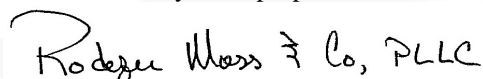
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rodefer Moss & Co, PLLC

Greeneville, Tennessee
October 6, 2015